ANNUAL REPORT

for the fiscal year
ending Dec. 31, 1991

Nova Scotia Dairy Commission

92-07938/

His Honour
The Honourable Lloyd R. Crouse, P.C.
Lieutenant-Governor of the Province of Nova Scotia
Government House
Halifax, Nova Scotia

Dear Sir:

I have the honour to transmit herewith the annual report of the Nova Scotia Dairy Commission for the year 1991.

I am, Your Honour

Yours very truly,

George Archibald

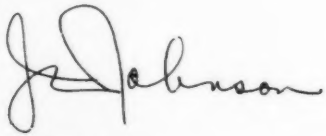
George Archibald

The Honourable George Archibald
Minister of Agriculture and Marketing
P.O. Box 190
Halifax, Nova Scotia
B3J 2M4

Sir:

We have the honour of submitting herewith the annual report of the Nova Scotia Dairy Commission for the fiscal year ending December 31, 1991, pursuant to the provisions of Section 17 of the Dairy Commission Act.

Respectfully submitted,



J.D. Johnson
Chairman

G.V. Comeau
Manager

Commission Members

J.D. Johnson—Chairman
G.A. Francis—Vice Chairman
W. McCurdy—Member
J.M. Killawee—Member
G.W. Butt—Member

Staff

G.V. Comeau—Manager
P.M. Green—Accountant
E.L. Faulkner—Secretary
E.E. MacLean—Accounting Clerk

INTRODUCTION

The Nova Scotia Dairy Commission provides a regulatory and administrative service on behalf of the dairy industry in Nova Scotia. The Commission works closely with producers, processors, the Department of Agriculture and Marketing, and the Canadian Milk Supply Management Committee. Together they develop regulations and policies to meet the needs of the industry and that are consistent with the objectives of ensuring that efficient producers receive a fair return for their product and consumers have a continuous supply of quality dairy products at reasonable prices.

Formed in June 1967, the Commission administers the Dairy Commission Act. Commissioners are appointed to three-year terms by the Governor in Council. The Chairman's appointment is full time, the other Commissioners are part-time. One member of the Commission is a nominee of the producers; one, a nominee of the processors; and the other three are persons who are not directly associated with the dairy industry. The Chairman and Vice Chairman are designated by the Governor in Council.

SUMMARY OF MAIN ACTIVITIES

The Commission met 15 times during 1991.

Many of the Commission's activities were carried out in cooperation with other committees.

The Dairy Industry Advisory Committee was established in 1989. In 1991, this committee met on three occasions, and provided a useful forum for the discussion of issues relating to the whole industry. At the end of 1991, the Committee was composed of the following persons: Chairman Jack Johnson, Barron Blois, John Dillman, David Sweeney, Gerald Fulton, Ernest Fage, Douglas Bailey, Casey Hoogeveen, James MacConnell, James Cook, Steve Rasmussen, David Sangster, Jack Redden, and Secretary Gabriel Comeau.

The Producer Advisory Sub-Committee is composed of the producer representatives on the Dairy Industry Advisory Committee. It deals with matters which are purely producer concerns, such as the application of the "catastrophe clause" to quota maintenance.

The Commission continued to operate a Market Sharing Quota (MSQ) Exchange during 1991. In November 1989, the Commission had adopted the policy of balancing volumes of MSQ sold on the Exchange.

DAIRY INDUSTRY OVERVIEW

The Dairy Industry in Nova Scotia is the largest segment of the Nova Scotia agriculture industry. Dairy producers in Nova Scotia include those who sell whole milk from the farm and those who sell only farm-separated cream. Milk producers, that is, those who sell whole milk, may be further differentiated on the basis of the utilization of and payment for the milk that they produce. They may be fluid or industrial milk producers.

Milk and cream consumed in liquid form is referred to as fluid milk for payment purposes. Milk and cream consumed in products such as yogurt, ice cream, cottage cheese, cheddar cheese, skim milk powder, whey powder, and butter is identified as industrial milk. Farm-separated cream is utilized primarily for making butter.

Fluid milk producers hold both fluid quota and MSQ. They receive payment for a portion of their fluid quota shipments at fluid price and the balance of their shipments at an industrial milk classification. Industrial milk producers and cream producers hold only MSQ, as all of their shipments are classified for industrial usage. Fluid and industrial milk producers must meet qualifying standards to receive a license from the Commission to ship milk.

TABLE 1

Total Milk Shipments to Processors in Litres

	Fluid Milk Producers	Industrial Milk Producers	Licensed Total	Farms
1991	167 298 957	1 580 868	168 879 825	541
1990	173 620 605	2 087 282	175 707 887	559
1989	170 500 370	2 509 448	173 009 818	577
1988	174 749 666	2 576 505	177 326 171	589
1987	172 588 160	1 997 862	174 586 022	601
1986	175 015 215	464 149	175 479 364	603
1985	168 227 955	71 610	168 299 565	609
1984	171 813 782	305 455	172 119 237	615
1983	164 330 487	410 111	164 740 598	630
1982	170 674 231	441 310	171 115 541	645
1981	169 649 931	535 515	170 185 446	656

CREAM PRODUCTION

Farm-separated cream production is declining owing in part to lower returns compared to industrial and fluid milk and to a shortage of MSQ. Five new producers began shipping cream in 1991 under the new entrant program and each was given 200 kilograms of free quota.

Prices for farm-separated cream did not change in 1991, and remain at $5.56 per kilogram ($2.54 per pound). Cream is received at two plants—Tatamagouche and Scotsburn. Cream statistics below apply to shipments of farm-separated cream only.

TABLE II

Shipments to Nova Scotia Processors by Cream Producers

Year	Butterfat (kg)	Residency of Producers as of August		
		N.S.	N.B.	Total
1991	54 552	82	3	85
1990	73 033	86	4	90
1989	88 318	95	5	100
1988	114 270	112	7	119
1987	177 400	131	9	140
1986	225 164	171	12	183
1985	219 247	181	14	195
1984	223 421	188	14	202
1983	224 934	202	15	217
1982	236 823	243	14	257

MILK UTILIZATION

Consumption of fluid milk in Nova Scotia decreased slightly in 1991. Trends towards lower fat consumption continue to be evident in the declining sales of whole milk and increases in the sale of partly skimmed and skim milk.

Sales to Newfoundland decreased by 7.5 per cent compared to 1990. Sales to Newfoundland represented 1.7 per cent of the combined fluid sales of Nova Scotia producers in 1991 compared to 1.8 per cent in 1990.

Total Nova Scotia fluid milk sales of 106 924 000 litres in 1991 compares with 108 842 000 litres in 1990, a decrease of 1.8 per cent. Fluid milk sales represented 65 per cent of total milk shipments by fluid producers. The balance of milk was used in the manufacture of products such as yogurt, cottage cheese, ice cream and mixes, cheddar, gouda, and feta cheese, skim milk powder, butter, whey powder, and condensed whey.

TABLE III

Product Sales within Nova Scotia

	1991 (Litres)	1990 (Litres)	Increase/ Decrease %
Standard milk	27 555 297	30 727 212	-10.3
Partly skimmed milk	59 334 068	57 799 956	+ 2.7
Skim milk	10 162 446	9 746 306	+ 4.3
Buttermilk	285 554	339 037	-15.8
Chocolate milk	4 220 487	4 831 588	-12.6
Blend cream	2 424 517	2 516 793	- 3.7
Coffee cream	1 584 877	1 493 860	+ 6.1
Whipping cream	470 170	467 966	+ 0.5
Sour Cream	389 160	368 696	+ 5.9
Egg nog	497 858	550 366	- 9.5
Total	106 924 434	108 841 780	- 1.8

MILK PRICING

The Commission establishes prices for each type and container size for milk and cream sold by processors in Nova Scotia. To prevent destabilization in the market, the listed wholesale price is also the minimum price at which milk may be resold to the public.

With the assistance of a major accounting firm, a thorough analysis of all processor costs associated with the production and distribution of fluid milk is undertaken on an annual basis and monitored during the year. The allowable rate of return takes into consideration that this is a regulated industry.

Effective August 11, the Commission approved a five cent per litre increase in the price of milk — 1.5 cents to producers, and 3.5 cents to processors.

TABLE IV

Commission Wholesale and Minimum Retail Price for Standard Milk (3.25 Per cent Butterfat)

	Nova Scotia Mainland	Cape Breton Island	Effective Date
4-litre pouch pack	$5.16	$5.20	August 11, 1991
2-litre carton	$2.60	$2.62	
4-litre pouch pack	$4.96	$5.00	August 26, 1990
2-litre carton	2.50	2.62	
4-litre pouch pack	$4.76	$4.80	September 3, 1989
2-litre carton	2.40	2.42	
4-litre pouch pack	$4.60	$4.64	January 1, 1989
2-litre carton	2.32	2.34	
4-litre pouch pack	$4.56	$4.60	August 1, 1988
2-litre carton	2.30	2.32	
4-litre pouch pack	$4.36	$4.40	January 4, 1988
2-litre carton	2.20	2.22	
2-litre pouch pack	$4.28	$4.32	December 28, 1986
2-litre carton	2.16	2.18	
4-litre pouch pack	$4.08	$4.12	December 29, 1985
2-litre carton	2.06	2.08	

The Commission sets the producer price for milk utilized in Class I and Class II, while Farmers Co-operative Dairy Ltd. sets the price for milk utilized in Class III. Prices paid to producers for milk sold outside the province are determined by prevailing prices in those markets.

As a general guide, milk consumed in liquid form is Class I; milk utilized for cheddar cheese is Class III (a) and milk processed into skim milk powder and butter is Class III (b). Milk not utilized as Class I or III is processed into other dairy products and paid at the Class II price.

TABLE V

Producer Base Prices per Hectolitre of Milk*

		Nova Scotia Mainland	Cape Breton Island	Effective Date
Class I		$62.60	$63.57	August 11, 1991
		61.10	62.07	August 26, 1990
		59.85	60.82	September 3, 1989
		58.70	59.67	January 1, 1989
		57.70	58.67	December 28, 1986
		55.41	56.38	December 29, 1985
		53.66	54.63	May 26, 1985
Class II		44.47	44.47	August 11, 1991
		43.24	43.24	August 26, 1990
		42.00	42.00	September 3, 1989
		41.61	41.61	February 15, 1988
		41.03	41.03	August 10, 1986
		40.23	40.23	August 26, 1984
		39.20	39.20	April 26, 1984
		38.38	38.38	April 16, 1984
Class III	(a)	43.28	43.28	August 11, 1991
	(b)	41.48	41.48	
	(a)	42.05	42.05	August 26, 1990
	(b)	40.25	40.25	
	(a)	40.81	40.81	August 25, 1989
	(b)	39.01	39.01	
	(a)	40.42	40.42	February 1, 198
	(b)	38.62	38.62	
	(a)	39.84	39.84	March 29, 1987
	(b)	38.04	38.04	
	(a)	38.84	38.84	August 1, 1986
	(b)	37.34	37.34	
	(a)	38.04	38.04	August 16, 1985
	(b)	36.54	36.54	
	(a)	37.01	37.01	August 1, 1984
	(b)	35.51	35.51	

*Based on 3.6 kilograms of butterfat per hectolitre

Changes to the Class II and III prices in Nova Scotia generally follow the federal target return level and support prices for butter and skim milk powder. The target price was increased effective August 1st, 1991, to $49.92 per hectolitre. The support price for butter remained at $5.331 per kilogram and the skim milk powder price increased to $3.304 per kilogram.

TABLE VI

Federal Dairy Product Support Prices

Skim Milk Powder	Butter	Target Return Level	Effective Date
$3.304/kg.	$5.331/kg.	$49.92/hl.	August 1, 1991
3.130	5.331	48.69	August 1, 1990
3.046	5.157	47.45	August 1, 1989
3.013	5.102	47.06	February 1, 1988
2.978	5.035	46.30	August 1, 1986
2.922	4.929	45.68	August 16, 1985
2.85	4.784	44.65	August 1, 1984
2.79	4.71	43.83	April 1, 1984
2.74	4.60	43.18	January 1, 1984

PRICE EQUALIZATION

The system of paying fluid milk producers based on the provincial utilization of milk, rather than the utilization at the plant to which they shipped, began in 1985 and continued to operate smoothly in 1991. For each pay period, the Commission obtains the pertinent information to make the provincial calculations and then acts as a clearing house for the plants who have paid either too much or too little for milk compared to their own utilization.

For the fifth year in a row, it was agreed there should be no change to the global amount of issued fluid quota because of the relatively static sales situation. An additional 500 litres of fluid quota was created to accommodate the graduated entry program. This is the program by which five members of the Cream and Industrial Milk Producer Group each receive 100 litres of fluid quota and convert their production to fluid milk.

TABLE VII

Summary of Price Equalization Values 1991

Month	Payout % of Fluid Quota	Fluid Value Cape Breton Is. & Yarmouth Co.*	Fluid Value Other Areas*	Non Fluid Blend Value*
January	78.47	$ 61.07	$ 61.94	$41.70
February	78.67	61.10	61.98	41.71
March	77.64	61.13	62.01	41.79
April	76.69	61.15	62.02	41.77
May	76.07	61.12	62.01	42.06
June	75.02	61.13	62.02	42.04
July	72.99	61.13	62.00	42.18
August	74.48	61.87	62.74	43.07
September	78.00	62.52	63.40	43.24
October	78.73	62.45	63.31	43.27
November	79.28	62.44	63.31	43.33
December	78.81	62.47	63.34	43.35

* Price per hectolitre of milk, 3.6 kilograms of butterfat.

TABLE VIII

Average Returns per Hectolitre Received by Fluid Milk Producers

	1991	1990	1989
January	$54.89	$53.96	$53.02
February	55.06	54.12	52.85
March	55.08	53.98	52.89
April	54.90	53.48	52.59
May	55.00	53.18	52.21
June	54.55	52.45	52.02
July	54.53	51.84	51.88
August	55.26	52.58	52.20
September	56.13	54.19	53.98
October	57.05	55.11	55.03
November	57.56	55.95	55.31
December	57.05	55.19	54.88

TABLE IX

Annual Returns to Fluid Milk Producers

Year	Annual Production (litres)	Average Total Payment	Average Value Per Hectolitre	Butterfat Test—kg
1991	167 298 957	$92 995 083	$55.59	3.69
1990	173 620 605	93 450 464	53.82	3.69
1989	170 500 370	90 758 109	53.23	3.70
1988	174 749 666	91 043 062	52.10	3.68
1987	172 588 160	89 393 163	51.80	3.69
1986	175 015 215	87 165 957	49.80	3.68
1985	168 227 955	81 493 963	48.44	3.71

BULK MILK HAULING RATES

The Commission has responsibility for setting the rates at which transporters are paid by producers for hauling raw milk from the farm to the processing plant.

During 1991, a comprehensive review of the bulk haulage sector was conducted by the Atlantic Industrial Research Institute in Halifax. Following the review, the Commission set bulk haulage rates for the various haulers, as summarized in Table X.

Effective December 29, 1991, the Commission adopted new regulations which equalized the bulk haulage rate paid by all the Nova Scotia milk producers, excluding Cook's shippers in Yarmouth County. Haulers receive the rates listed below, but producers pay the provincial weighted average of these rates. The initial weighted average rate was expected to be $2.05 per hectolitre.

TABLE X

Schedule of Bulk Haulage Rates —Farm to Fluid Plants

Transporter	Maximum Rate per Hectolitre	Effective Date
Bedford Transport Ltd.	$2.08	December 29, 1991
E.D.F. Transport Ltd.	2.12	
C.E. Fisher Transport Ltd.	1.87	
Rudy Burghardt	1.87	
Cook's Dairy Farm Ltd.	1.40	
All Transporters, milk to or from Truro		
Yarmouth to or from Truro Farmer's Cheese Division	$4.47	December 29, 1991
Yarmouth from Truro or Shubenacadie Pick-up	4.07	
Yarmouth from Hammonds Plains or Dartmouth	3.72	
Yarmouth from Valley or Bridgewater Pick-up	2.89	

MARKET SHARING QUOTA

The supply management system in Canada for industrial milk is known as the Market Sharing Quota (MSQ) Program. All provinces except Newfoundland, which does not process any milk into industrial products, are signatories to the National Milk Marketing Plan.

The objective of the program is national self-sufficiency in industrial milk production on a butterfat basis. A committee of provincial representatives under the chairmanship of the Canadian Dairy Commission is responsible for policy development. The committee establishes a national quota in butterfat based on the estimated demand for dairy products in Canada, plus the volume required for a small export program, and the plan sets forth the relative provincial shares.

The federal government supports the program with import controls on dairy products, support prices for butter and skim milk powder and direct subsidy payments to producers. The government also absorbs certain costs associated with the offer-to-purchase program for skim milk powder and butter.

Each province allocates its respective share of the national MSQ among producers according to its own policies. The Nova Scotia Dairy Commission administers the program on behalf of the milk and cream producers. Policies are developed in consultation with the Nova Scotia Milk Producers Association and the Cream and Industrial Milk Producers Association and with the assistance of the Dairy Industry Advisory Committee.

In 1991, due to declining domestic requirements for butterfat, Market Sharing Quotas were reduced 4.6 per cent in August.

During 1991, some major changes were made to the National Plan. Due to recent significant increases in fluid skim-off, a change was made in its treatment. All provinces, effective August 1, 1991, accepted full responsibility for future increases in fluid skim-off. Further increases will be subtracted from each province's individual MSQ allocation.

Levy obligations will also be allocated differently. In September 1991, all provinces agreed that levy responsibility should be allocated to provinces on the basis of all milk (fluid and industrial) rather than primarily on MSQ milk, as in the past. This change is to be phased in over three years, starting with the 1991–92 dairy year.

Provinces are free to set their own levy rates. For the 1991–92 dairy year, Nova Scotia established a levy on fluid milk for first time. Levy rates are outlined in Table XIII.

TABLE XI

National Market Sharing Quota Entitlement and Utilization

July 1991
(Millions of Kilograms of Butterfat)

Province	Date of Entry	Authorized MSQ	%	Production	% Utilization
Nova Scotia	April 1, 1974	2.118	1.3	2.293	108.3
New Brunswick	April 1, 1974	2.103	1.3	2.217	105.4
Prince Edward Island	December 1, 1971	3.035	1.9	3.076	101.4
Quebec	December 1, 1970	76.244	47.3	76.840	101.8
Ontario	December 1, 1970	50.046	31.1	51.657	103.2
Manitoba	July 1, 1972	6.226	3.9	6.423	103.2
Saskatchewan	July 1, 1972	4.145	2.6	4.265	102.9
Alberta	April 1, 1972	10.690	6.6	11.226	105.0
British Columbia	October 1, 1973	6.383	4.0	6.731	105.4
Total		160.990	100.0	164.729	102.3

TABLE XII

Nova Scotia MSQ Production
(Kilograms of Butterfat)

Producers	1990–91	1989–90	Change	%
Fluid	2 159 579	2 123 312	36 267	1.7
Industrial	70 816	91 993	–21 177	–23.0
Cream	62 545	77 399	–14 854	–19.2
Total	2 292 940	2 292 704	236	0.0

TABLE XIII

Nova Scotia Levy Rates for 1991–92

Fluid Producers	Production paid at fluid price	$ .2339/kg
	Production up to 96.04% of MSQ	$ .6397/kg
	Production between 96.04% and 100% of MSQ	6.1042/kg
	Production over 100% of MSQ	10.1432/kg
Industrial Producers	Production up to 96.04% of MSQ	.6397/kg
	Production 96.04% and 100% of MSQ	6.1042/kg
	Production over 100% of MSQ	10.1432/kg
Cream Producers	Production over 100% of MSQ	4.00/kg

While national quota levels and levy rates are set at the July meetings of the Canadian Milk Supply Management Committee, they are reviewed at the January meetings of the Canadian Milk Supply Management Committee. Adjustments to quotas or levies may be made at that time if they are deemed necessary.

Under the National Milk Marketing Plan, milk and cream producers are responsible for the costs associated with the export of dairy products that are not required for domestic consumption. In meeting Canadian requirements for dairy products on a butterfat basis, there is a surplus of skim milk powder to be exported as well as products derived from over-quota production. The Canadian Milk Supply Management Committee determines the provincial levy responsibilities and allows the individual provinces to determine the levy rates. Levies are deducted from producer payments by the processors and are forwarded to the Canadian Dairy Commission by the Nova Scotia Dairy Commission on a monthly basis.